

Of money, heresy, and surrender

Part I: The ways of our system, an outline, from Bretton Woods to the financial slump of 2008

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ABSTRACT

This is the first of a two-part study of a fundamental but neglected truth concerning the nature of money. Pushing alone against the doctrinaire cross-currents of the monetary maelstrom, anarchist reformers have since the 1920s discussed the introduction of *time-dated money*. The institutional and theoretical issues underpinning this revolutionary innovation, as well as the questions of its workability in the contemporary framework, will be presented in *Anarchist Studies* 18.1 (2010). The present article prefaces this extraordinarily important chapter of reformist thought by providing a summary historical account of the monetary system in which we live. This is done with a view to casting in relief the intimately dysfunctional and inequitable constitution of the latter and to contemplate how a blueprint for communal reform based on the principle of perishable money may correct such wrongs.

Key words *Money, policy, empire, United States, business cycle, finance, economic history*

INTRODUCTION

It has been the exclusive merit of the German communal/anarchist thinkers of the 1920s, namely Silvio Gesell (1864-1930) and Rudolf Steiner (1861-1925) to have

conceived and articulated the genial idea of overcoming the chief obstacles strewn along the distributive chain of the economy by means of a *time-sensitive money certificate*. The logic supporting the concept is, in fact, straightforward: Gesell and Steiner reasoned that if it is agreed that 1) money is indeed a symbolic medium –perfected with the sole aim of expediting exchange, and that 2) such an exchange is between goods (and services), which perforce are (or rely on means and resources that are) *perishable*, then it must logically follow that the key to a wholesome arrangement of productive factors and remunerative flows should itself be boosted by a form of money bearing an expiration date. In other words, simple economics demands that money die.

The political consequences that would arise from the implementation of such an intuition are momentous: it is clear that a reform of this sort would definitely encroach upon the privileges of the banking industry, which is the most guarded and powerful oligopoly of all. Incidentally, the legitimacy of this cartel on the one hand, and American hegemony on the other, are two of the chief tenets of orthodox western ideology: all western practitioners of the social sciences that wish to advance in the incumbent power structure know that these are never to be questioned overtly – i.e. pricked in their neuralgic nodes. Among other aspects of the question, this essay will show how these two articles of modern political faith (money and US primacy) are intimately tied, so much that, as evidenced by the recent crisis, it is nearly impossible to discuss national monetary/economic issues – European or otherwise – without making constant referrals to the role of the United States.

How then would the privileged position of banking be threatened by time-dated certificates or virtual renditions thereof? The bulk of what we call money is put into existence, not by central banks – which act as issuing appendices of this complex amalgam of private and public affairs – but by the private banking network itself through a systematic process of ‘mortgaging’ (or wealth, income, etc). In other terms, commercial banks derive their power from the license, which states grant them, to manufacture money by way of loans, a process which is itself enabled by the management of virtual ciphers (money) that never die. By grace of this monetary *hoard*, which by definition may be withheld whenever investment prospects are not deemed promising, and by grace of their control over a vast network of payments, credit institutes have from time immemorial

exacted from the body economic copious rents (interest charges), which make them the force they are. 'Hoard' is the key word in this case. If perishable money, which carries the anti-hoarding device in the expiration date, were injected into the productive fabric of society, it would outflank the banking network by spurring a circuit of its own – one where banks would on the one hand inevitably, and justly, surrender a sizeable measure of decisional clout to the productive sector, and on the other, no longer base their investment policies on mere interest-driven exigencies. Clearly, a growing share of business conducted outside the conventional perimeter of banking represents for the latter lost interest as well as diminished influence.

That this isn't a quixotic theme with merely utopian aspirations is attested by the non-peripheral and serious discussion of Gesell's reformist agenda that took place in mainstream academia during the Depression (the most famous interventions thereon being those by J. M. Keynes and Irving Fisher, which will be briefly discussed in Part II). More recently (2006), evidence of perishable money's power of suggestion is afforded by the uneasy reaction on the part of Germany's central bank to a flurry of regional movements intent on availing themselves of time-sensitive media of payment. As will be recounted in Part II, initiatives to realise regional associations of exchange and development by means of time-dated money have been afoot for several years all over the world. These have remained to this day largely circumscribed for a variety of reasons, but the fact that they do exist, that they have made such a notable comeback along with a resurgent interest in the figures of Gesell and the economics of Steiner, is sufficient proof that there is something of abiding value and wisdom in the underlying idea.

Before discussing the challenges associated with the promotion of a tool and a conception as unconventional as time-sensitive money (which is the main subject of Part II), it is appropriate to offer – as this first instalment is designed to do – a chronological sketch of the monetary environment that we inhabit: the system whose institutions we wish to modify. As shall be argued, the picture that offers itself in the west is one characterised by the imbalances engendered by conventional banking at the domestic (national) level – difficulties roughly identical for the economies of all countries which, in the post-second world war era, have become inextricably enmeshed in the tangle of America's imperial goals. The latter aspect is the specific focus of this essay.

Presently, we have reached a situation of substantial complexity. In its essential traits, however, it amounts roughly to a modernised replica of the late Roman imperial arrangement. What we are lately dealing with is a set-up whereby the imperial centre, having dismantled its manufactures over the course of the past generation, has eventually found itself functioning as the world's virtual marketplace. It stands willingly as the 'number one' globalised market venue of the world, propped by an array of service industries (e.g. commerce and transportation), led in turn by the executive strategies of the financial sector: at the basic operational level, think of the American economy as an expanded, world-wide E-bay store with its associated financial arm, Paypal, deputised to dispatch the money flows accompanying trillion dollars' worth of transactions (financial and otherwise). The economies of the world are 'moored' as it were to the US market by means of the latter's openness to their exports (China's above all). The underlying design is subtle: in order to bind the vassal economies of the world to their global emporium, the economic capital of the empire, New York, moves to attract the savings of the world, which are subsequently disposed of to cover the budget and trade deficits. In other words, foreigners are invited to invest in the USA, which employs such capital flows to cover the cost, inter alia, of military expenditures and the (imported) commodities it no longer needs to produce; determined to impede a rapid appreciation of their currencies, the foreign vassals find themselves forced to 'reinvest' the dollar proceeds obtained from their export sales to the United States in American securities. Thus, banking on its dollar, which the world hoards as the chief 'reserve currency,' the United States has managed to harness to its financial engine the productive apparatuses of the world, which have been locked into the imperial system via the lure of appealing yields on Wall Street and the concomitant 'concession' to offer a wide range of goods for sale on the American marketplace. The locomotive of this massively unwholesome construction is Wall Street itself, upon whose creative finance the imperial elite of Washington DC relies in order to set the world caravan in motion. In such a setting – the so-called neo-liberal order (post 1979) – the inflation of speculative bubbles is a functional necessity. Thus far the system has experienced three such five-to-six year speculative cycles: the Volcker/Reagan stock market jolt of the 1980s (1982-87), Greenspan's historical dot.com boom (1994-2000), and Bush Junior's subprime mortgage-fest (2002-2007), at whose trough we now find ourselves.

FROM THE TRADITIONAL BOOM/BUST TANDEM OF BIG BUSINESS TO THE 'SERIAL BUBBLE DEPENDENCY' OF THE 'NEW ECONOMY'

Bubbles, excess and calamity are part of the package of Western finance. And still it is worth it.

*The Economist*¹

1. Business enterprise in a nutshell ...

How does the capitalist machine function under the regime of imperishable money? The answer is: by spurts, by alternate bouts of panic and elation. The banks' interest rate always bides its time: in the pre-second world war era, roughly speaking, the banking network was wont to await a creative solution (i.e., a technological shift), snap it up when it was somewhat past its pioneering phase, and then proceed to foment the boom, thereby flooding the markets with 'money' by means of credit.² Businesses were allotted credit lines, and by drafting cheques on such accounts, they could wrest resources away from their former employment by bidding up their prices. This was the typical inflationary ignition of the boom.

In time, market saturation, misalignment of economic fundamentals and gradual insolvency all contributed to narrow profitable spreads. Prices plummeted, and so did business earnings: the rate of profit would descend dangerously close to the bank rate. At last, interest would overtake the rate upon capital (profitability), and the system would be finally immobilised: the *deflationary* slump settled upon the markets – the rate of return of businesses had sunk below the bank rate. Banks shut off the spigots. 'Money is tight,' so the crowds would then say. And while unemployment rose, those business concerns that had 'cashed in' before the storm (generally the large financial institutions and, nowadays, private-equity concerns), would proceed to scavenge from the distressed economy deeds, shares, bonds, and real estate at slashed prices, and thereby tilt a highly concentrated distribution of wealth further in their favour. After the rummaging, they would wait. They waited for the next boom, when a 'new technological paradigm' would be just around the corner. The property they had amassed would form the basis (the so-called collateral, or security) for the next expansion of credit. What, then, is a most unnatural husbanding of the economic organism – its stimulation by spasms – has been up to this day construed as an inalterable fact of life by the ordinary person subjected for millennia to a traditional regime of imperishable money – immutable like the

scansion of the seasons. The so-called 'business cycle' has now become a mainstay of western folklore.

2. Bretton Woods

Since the second war this system has remained virtually the same, though it was modified in one significant aspect. The potential for *deflation* – the chronic malady of the 1930s characterised by the simultaneous manifestation of declining prices, growing unemployment and income contraction – was reversed by a policy of steady inflationary pressure, built into the system by the provisions of the Bretton Woods Conference of July 1944. As known, the new world standard of the *Pax Americana* was a gold-dollar-exchange anchored on the promise to redeem the greenback at \$35 per fine ounce of gold. The United States went on to inflate massively the money supply providing 1) the international means of payment, and banking *reserves*, to their newly-annexed western satellites – money which these could spend on 2) America's market, the largest in the world.

During post-war reconstruction, the United States accumulated significant trade surpluses vis-à-vis the rest of the world. These surpluses, however, were systematically exceeded by substantial flows of US economic and military investment overseas, which consolidated American hegemony by way of industrial and financial acquisitions. Conventionally stated, America printed dollars and bought the world.

So long as there existed a 'dollar shortage' – i.e. a commercial dependence on US exports, which manifested itself through a strong demand for the American currency – such capital outflows were sustainable: in other words, they did not foment an immediately detectable bout of inflation. But as soon as the European countries had achieved reconstruction and an industrial (exporting) capability of their own, they found their reserves to be such that the 'dollar gap' was finally being closed. This occurred in 1958. America's outgoing dollar flows, however, kept increasing dramatically throughout the 1960s, and its persistent trade surpluses offered little offsetting relief against this steady transfer of dollars earmarked for strategic placement.

It so happened that the central banks of the recipient countries found themselves flooded with dollar balances (presented to them by resident businesses and private citizens) against which they had to issue the equivalent value expressed in

the domestic currency. The tricky dimension to this business was that such capitals denominated in dollars thus surrendered by European payees to their central banks, were eventually re-placed ('invested') by the latter in the American market itself. Therefore, America perpetrated two economic injustices at once. First, owing to its hegemonic position, the United States fuelled a ceaseless generation of world *inflation*, as funds earmarked for foreign investment originally issued by the Federal Reserve found themselves *duplicated*: once as converted balances in Europe and twice as capital disposable anew on Wall Street. Second, the dollar, as the currency vested with the role of internationally recognised reserve, permitted the United States the luxury to score chronic capital account deficits,³ by which it managed, in fact, to 'expropriate' – as French president Charles de Gaulle polemically put it – key industrial assets in Europe, paid for with freely-printed dollars. De Gaulle's economic advisor, Jacques Rueff, referred to the dollar's bullying privilege as that 'marvelous secret of the tearless deficit' (*le déficit sans pleurs*).⁴

From America's viewpoint, however, the adherence to a tempered gold regime entailed an annoying constraint, namely, that creditor countries could actually squeeze a tear or two from the US giant by demanding sooner or later the redemption of their dollar gluts in gold. This, they eventually did. Chronologically, the point at which America's debts to foreign central banks exceeded the value of the US Treasury's gold stock was reached in 1964, 'by which time the US payments stemmed entirely from foreign military spending, mainly for the Vietnam War.'⁵ In 1967, France finally resolved to spearhead a run on the dollar by demanding conversion of dollar balances into gold; in March 1968, as President Johnson avowed failure in Vietnam by announcing his withdrawal from American politics, the US gold stock had been so depleted that American strategists awoke to the reality, lamenting bitterly how European financiers had 'forced peace' upon them and caused, indeed, an American president to be ousted.⁶

3. The US Treasury-Bill Standard

Irksome though this was to America, the constructive lesson was quickly learnt by its stewards, who wrought yet another momentous modification on the modern capitalist engine with a view, of course, always to maintain hegemonic control. It was done in 1971, under Nixon. The alteration was straightforward: sever the link

to gold (i.e., suspend gold payments), and upgrade to a full-fledged *US Treasury Bill Standard*⁷ which, with the addition of further refinements, is the regime under which the world economy has been operating to this day. It was a critical transition – the end of Bretton Woods. The scheme has been deemed Machiavellian in that it cleverly shifted the burden of US external deficits squarely and definitively onto the creditor countries by raising the spectre of dramatic dollar devaluation (Nixon had already driven down the dollar by 30% in the aftermath of the 1971 break). In other words, Europeans would be forced to continue to absorb dollars for fear 1) of suffering crippling losses on their dollar reserves, and 2) of seeing their exports to the United States irremediably undercut by protectionism and rival American merchandise boosted by a low dollar. One by one the western allies, including France, fell back into line.⁸

Though America in the early 1970s won the battle with the repudiation of the gold clause, the new post-1971 standard was nonetheless a child of crisis. Thenceforth it was understood that the United States and its satellites, barring a modicum of mercantile wrangling, would have to coordinate monetary policy, for they were in the same boat (America's). However, it was also the case that *both* partners were beginning to suffer acutely from the effects of the 'long downturn' brought about by a general overcapacity of the industrialised world, which was marked by an unambiguous *decline in the manufacturing rate of profit* for the west as a whole. The passage from boom to stagnation was consummated between 1965 and 1973.⁹ To compound difficulties for the US administration, the policy of low dollar/cheap US exports as a tool of blackmail became blunted by the end of the 1970s. What had come to weigh against American economic fitness was the unremitting deterioration of its manufacturing sector – above all the machine-tool industry, which had been the heart of the high-productivity gains spurred by 'Yankee know-how' since the Colbertist policies of American nationalist Alexander Hamilton in 1791. In its stead, American strategists appeared to have pursued 'Pentagon capitalism,' that is, the staging of progressive deindustrialisation to be survived by grain suppliers,¹⁰ on the one hand, and, on the other, clusters of high-tech, high-cost military contractors assigned to realising the projects of the Department of Defense.¹¹ American productivity began to fall dismally after 1965, and no better indicator of such disarray could be cited than the unravelling of America's automobile production. By 1977 US workmanship was no longer a

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synonym for quality; for that year and the following, the United States registered large trade deficits on its trade balance.¹²

The Nixon administration's policy of deliberate depreciation of the dollar and increased government expenditure to sustain employment and consumption in the midst of stagnation – both requiring the Federal Reserve to pump money ceaselessly – had become toothless by the time they were relayed to President Carter's executive. Because America was, industrially speaking, no longer menacing, not only did the insistent devaluation of the dollar fail to bring relief to the trade balance, but, most importantly, *it actually spurred a massive outflow of capital out of the United States*.¹³ Meanwhile, saddled with deepening trade and budget deficits, and fugitive capital to boot, *inflation in America consequently shot into the double digits*. With Carter, the first act of the US Treasury-Bill Standard led to a dead end, prodding the minds of American strategists to reinvent it anew, this time as the formidable globalised, finance-driven 'New Economy' in which we presently toil.

4. Neo-Liberal Coup

1979-81 was the watershed biennium: Paul Volcker,¹⁴ one of Nixon's erstwhile architects of the post-1971 standard, was appointed Chairman of the Federal Reserve to engineer the preliminary phase to 'a major process of self-transformation'.¹⁵ The pervasiveness and intensity of the manoeuvre jointly orchestrated by the directorates of the Fed and of the Reagan executive were such that certain scholars have not shied away from calling it a 'coup'. This was the coup that brought forth the so-called 'Neo-Liberal revolution'.¹⁶ In essence, neo-liberalism's institutional transformation issued from the imperative of seeing foreign capital hitched to the US locomotive. How was it a tale of revolution?

The neo-liberal turnaround was denoted by: 1) a nearly-complete dereliction of manufacturing workmanship in favour of 2) a service economy fronted by finance; 3) a reconfiguration of the capitalist engine, whose combustion was thenceforth made chiefly reliant on speculative froth (bubble dynamics); 4) the repression of prices (inflation) and wages; 5) the imposition of high *real* rates of interest;¹⁷ 6) continuing deficits on the trade balance *and* the government's budget; 7) the 'global' (i.e., imperial) suction of foreign,¹⁸ especially Far Eastern, manufactured commodities unto America's marketplace; 8) an unrestrained and

overwhelming resort on the part of the median household to personal indebtedness in order to sustain consumption; and 9) as a result, the adamant reinforcement of a plutocratic, bond-holding elite, whose wealth presently displays patterns of concentration not unlike those of a Banana Republic.

The plan, which has undergone its vicissitudes in the past quarter of a century, has not been wanting in sophistication and suppleness. Let us see why by turning to the headings listed above.

Services: because the 1970s had proven that a generalised state of competitive stalemate – caused by saturation, capacity surfeit, and cheapness from the Far East – could not be overcome, the United States went ahead and virtually sacrificed manufacturing by boosting services instead – finance, above all – as these could be made immune from international competition.¹⁹

Inflation: this was the chief catalyst of the operation. In the 1970s, inflation had seriously eroded the elite's bonds and stocks, which had suffered negative returns. It was time to 'apologize' to the bondholding class and redress the situation.²⁰ Between September 1979 and April 1980, Volcker curtailed money growth and progressively escalated the Federal Reserve's short term interest rate, which sent banking's prime over that time period from 12 to 20 per cent.²¹ Therefore, 'banking entered its most profitable era since World War II.'²² In the process, the dollar rapidly appreciated, while the unemployment level reached levels unseen since the Great Depression: officially, 10.8 per cent by the end of 1982. Next, Volcker tackled wages: in order to erase the pressure of labour remuneration upon prices, and to arrange the preconditions for a leveraged bubble economy directed by the shareholding class, plants were re-located either to the South or overseas, legislation was drafted to break union power (beginning with the Democrat administration of Jimmy Carter), and the wealthy were significantly unburdened of tax duties (in 1981, under Reagan).²³ The last thrust, which set the anti-inflation mechanism in full swing, came in 1982 with the steady provision of private credit (or debt). As a consequence, the wealthiest households deriving income from financial assets experienced an explosive surge to more than 14 per cent of national income: an increase of 67 per cent just for the first three years of the coup, 1979-82.²⁴ Median and low-income families, conversely, embarked on a journey of ever-growing personal indebtedness and gradual loss of economic status. If one looks at the data, the trend underscoring the late stock market excess of the

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American economy takes off unambiguously and markedly, not in 1994-95²⁵ but in 1982²⁶ – this was all Volcker's groundwork, which his successor at the Fed, Alan Greenspan, successively nurtured for the length of nearly twenty years.²⁷

Trade deficits: contrary to the misleading alarms of the press, America has no fear of external deficits; it actually thrives on them. Since the neo-liberal break, US economic ministries set out to target the amount of foreign capital the American economy may attract, and then proceed *on that basis* to accumulate a corresponding trade deficit. Therefore, it isn't true that the United States has been engulfed in a haze of (importing) profligacy, which may only be condoned by parsimonious partners (mostly Asian) willing to extend credit for this putative fit of irresponsible consumerism.

By managing first to strengthen the dollar and second to sustain the level of *real* interest to the historically high mark of 5.8 % throughout the period 1982-1990,²⁸ the Federal Reserve succeeded, in fact, in re-attracting foreign investment, which allowed the procurement of (excess) imports: America overcame inflation in 1984 and managed, yet again, to run external (this time, trade rather than financial) deficits without tears. Furthermore, this achievement confirmed and dovetailed with the strategic realisation that 'perennial trade deficits are a substitute for high rates of inflation. [For], in essence, an abundant foreign supply of goods and services weakens the domestic pricing power of producers and suppliers. This device can work only if foreigners are prepared to accept claims on assets in exchange for their goods and services.'²⁹ This is precisely what Volcker's high-rate, high-dollar, inflation-busting policy was designed to accomplish. Yet there was one more crucial gain scored from this web of nested objectives.

Budget deficits: The beauty of the neo-liberal putsch – as understood by another outraged French president, François Mitterrand – was that, by using a policy of high interest rates, the United States could 'siphon savings out of the other industrialized countries to pay for the huge federal deficit that should be paid for by [...] US taxpayers.'³⁰ Of course, Mitterrand failed to remark that the Europeans, as well as the easterners (especially the Japanese),³¹ were glad then, as they have been ever since, to 'invest' in America, owing to the chronic overhang of industrial overcapacity at home, which is always prone to threaten the delicate capitalizations of modern corporations (as discussed above – under the head of 'business enterprise' – in classic Veblenian terms). It is nonetheless true and

revealing that, by virtue of having posited itself as the first and unavoidable market of the world, the United States has given itself one more degree of freedom in running continuous federal deficits with a view to pursuing an aggressively statal acquisition and development of hi-tech solutions, mostly for its military industry.³²

Thus, the neo-liberal revolution has delivered an updated version of the classic circuit of 'imperial levying',³³ by which, first of all, high interest rates prompt foreign investment; part of the money thus attracted is spent on excess (manufactured) imports, while the Fed keeps printing dollars to continue the strategic policy of foreign investment abroad. In turn, these dollars are bought by foreign central banks from their domestic holders, and subsequently 'invested' in America's debt instruments – mostly US Treasury bills – in order to prevent a steep appreciation of the foreign currency vis-à-vis the dollar.³⁴ Since Reagan, however, the budget deficit has no longer been incurred to stimulate demand, as in the 1970s, but to perform as a supply-booster,³⁵ behoving, for the most part, the defence contractors. The novelty in this arrangement was the reliance on foreign capital inflows (financial account in surplus) to shoulder *both* trade and federal deficits, *with the complementary objective of phasing out inflation*: by re-attracting foreign funds to America, Volcker's high-interest rate/strong-dollar switchback 'made it unnecessary for the Federal to monetize the debt' (i.e., to print money with a view to absorbing whatever chunk of public debt American taxpayers and investors would not cover).³⁶

So, since the 'coup,' what drives America's external deficit – and hegemonic preoccupation – is the international financial account.³⁷ Considering moreover that the dollar's supremacy is guaranteed by 1) its being still the chief reserve currency of the central banking system on a global scale (today, foreign central banks presently hold approximately 45 per cent of all outstanding US debt certificates), 2) its invoicing of world trade, and 3) its invoicing of all essential staples (oil, above all),³⁸ America's powers of economic pressure on Europe and the rest of the world remain as daunting as they've ever been.

To recapitulate: Neo-liberalism has become coterminous with a new debt system that has rescinded most forms of labour protection, and entrusted accordingly the monetary requirements of a majority of ever more impecunious households to the (private) mortgaging interests of a bond-holding class sheltered by tax gains and other regressive legal dispositions (i.e., the rich 'microfinance' the poor and not-so-poor through the intermediation of the credit industry).

Meanwhile, a stable, strong dollar, coupled with high (real) rates of interest, has been found to be the inescapable bait for luring external funds, which will 1) feed the system (imports, federal deficit and military expenditures), and, most importantly, 2) fuel America's 'growth engine' by preferential means of speculative dynamics. So, in the end, the world at large nurtures financial bubbles on Wall Street so that it may export (mainly manufactures) to the United States, while the latter devotes a significant portion of its commercial seignorage, so to speak, to the acquisition of martial know-how that'll keep the trading vassals in line. Imperially speaking, this is an accomplishment.

At this stage, however, one may reasonably wonder whether this circuit does not rest, in fact, upon a fragile equilibrium: in other terms, doesn't the United States have to pay increasingly hefty interest charges on its external debt, which performs such a crucial work of hegemonic regulation? The answer is that it does; yet, again, because of 1) the dollar's privileged status and 2) America's commercial primacy, the United States will show no excessive concern in this regard so long as it manages – as it has so far – *to earn more on its foreign assets than do foreigners on US assets*. The counter-intuitive logic of latter-day empire: here is a world 'debtor,' whose power is such that it is in a position to borrow cheaply and lend dearly.³⁹

Epochal though it was, Volcker's regime (1979-1987) suffered from a complex, tortuous and, at times, socially turbulent a history⁴⁰ – the sort of chequered, choppy material that, unlike Greenspan's mythology of the 'New Economy,' defies hagiographic treatment. Although inflation had been vanquished in 1984-85 and money markets were buoyant, the ravages inflicted by the soaring dollar upon America's agrarians, beleaguered manufacturers and exporters at large were such that America's chief allies (the G-5) had to be summoned to New York in September 1985 to engineer a decade-long decline of the dollar vis-à-vis the other main currencies – the yen and mark, in particular: this was the so-called Plaza Accord. Thereafter, US interest rates fell vis-à-vis foreign ones, and dollars were sold. The subsequent drop of the dollar calmed the special interest groups momentarily,⁴¹ but, given the fading contribution of US manufacturing to national income, the Plaza meeting obviously failed to bring about the much touted turnaround in the trade balance.⁴²

In those days, growth was slow, interest rates remained high and nothing stood in the way of 'a national binge of borrowing,' as Volcker put it.⁴³ There began an arm-wrestling match between the Fed, which was bent on attenuating as much as

possible the dollar's descent – hence bent on defending high interest rates – and the executive, led by Jim Baker's Treasury, which sought to align money rates with slower growth in view of placating the anxieties of an economy still a bit discom-bobulated by Volcker's shock therapy. As the rates were eventually lowered in 1986, Volcker came out politically diminished from the scuffle: he would soon be replaced by Alan Greenspan (August 1987). Despite Volcker's forebodings, Wall Street cheered, enthused as it was over 'the twin bonuses of lower oil prices and lower interest rates [...]. From 1982 to 1987, the value of Dow Jones stock had inflated by more than 230 per cent. Yet, real economic growth had totalled only 20 per cent.'⁴⁴

5. The serial bubbles of the 'New Economy'

The first (neo-liberal) crisis, which came to be handled by Alan Greenspan – the stock market crash of October 1987 – taught the newly appointed Governor an important lesson in the monetary management of empire. The reasons behind the crash are understood: logically, after the Plaza, Volcker was loath to see interest rates and the currency fall too brusquely, for such a movement would have undermined that flow of foreign capital – presently animating America's debt and stock markets – which he had channelled back to the United States at considerable effort and cost since 1979. By definition, (foreign) investors shun diminishing yields and the risk of exchange rate depreciation.

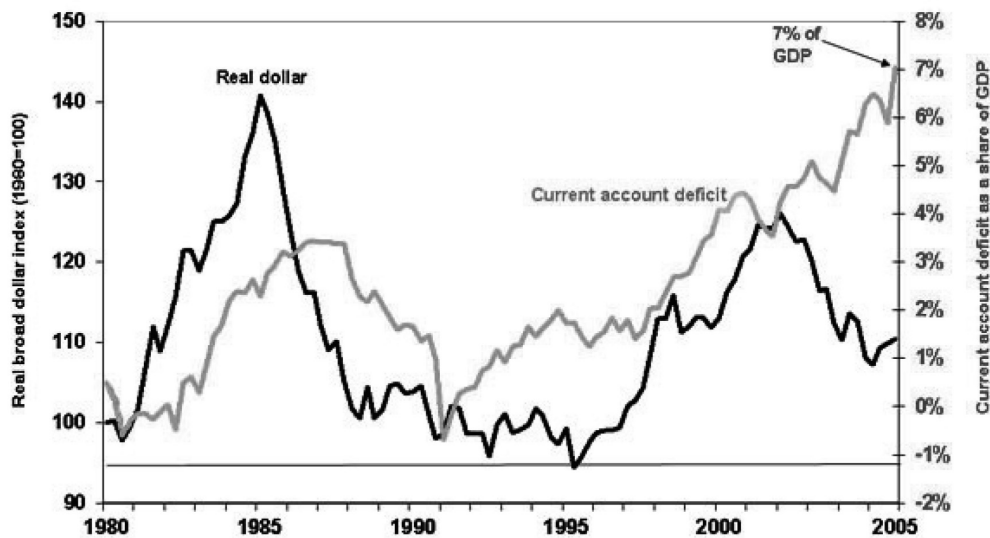
US policy makers were caught in a bind, needing relatively low interest rates and a low dollar to spur the manufacturing sector *and the opposite to prop up finance*. This is a conundrum they were never able to solve, and the outcome, sooner rather than later, was the stock market collapse of 1987 [...].⁴⁵

A trillion dollars' worth of nominal wealth was effaced by the shock.⁴⁶ Though the loss appeared substantial (before the seizure, the total stock wealth stood at 3.2 trillion dollars), the system hardly appeared to have lost momentum. In the first performance of what would become a regular pattern of rescue operations, Greenspan forthwith lowered the Federal Fund Rate by half a percentage point and created (ex nihilo, as it normally goes) 'the funds' to plug the losses of those brokerages that had found themselves most exposed to the shock.

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Chart 1



Source: Federal Reserve Board of Governors, Bureau of Economic Analysis and Economic Policy Institute

Chart 2

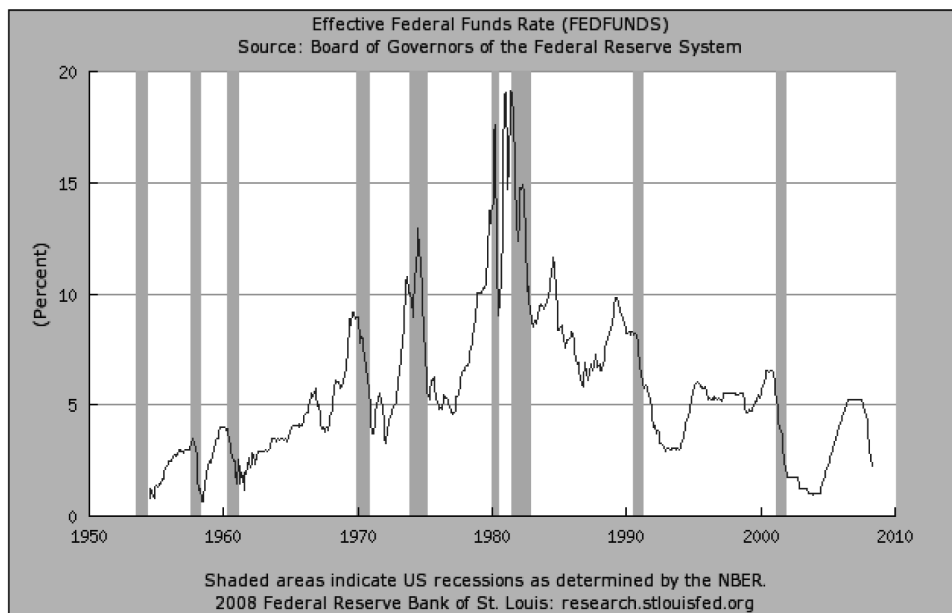
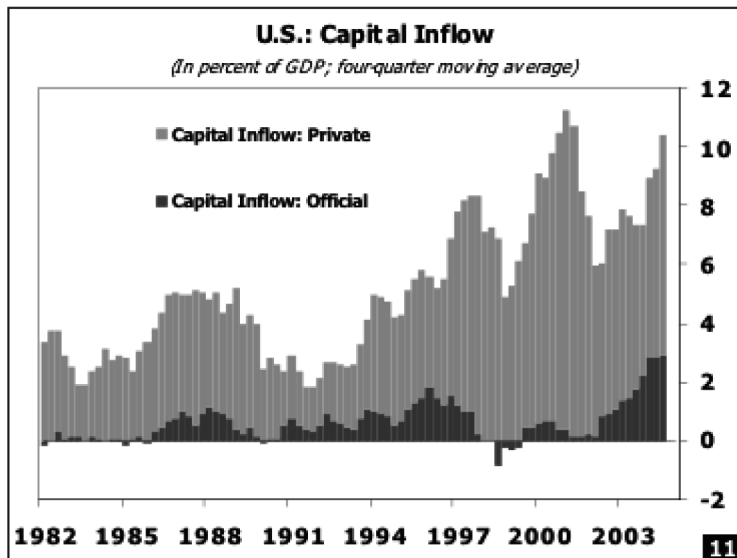


Chart 3



Source: www.imf.org/external/np/speeches/2005/031505.htm

Chart 4

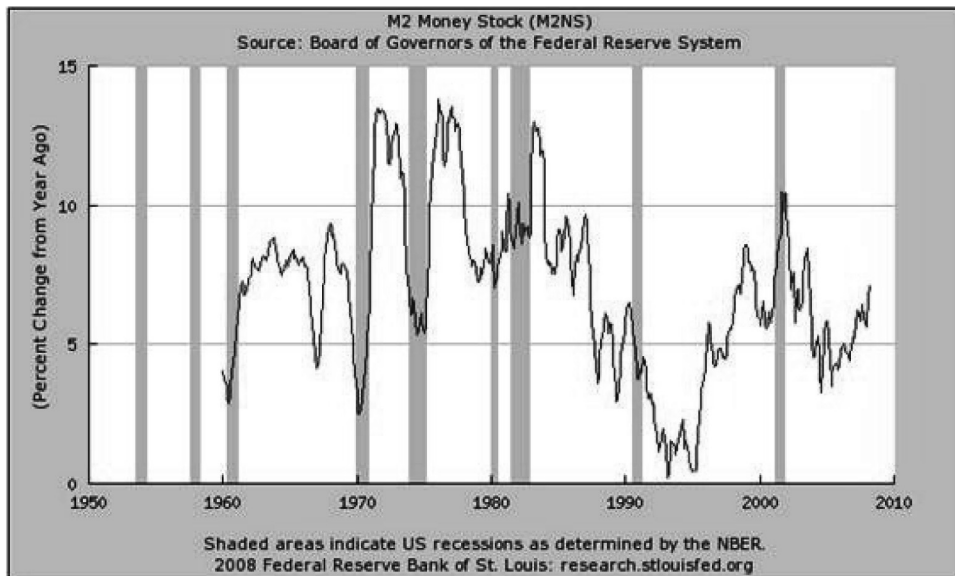
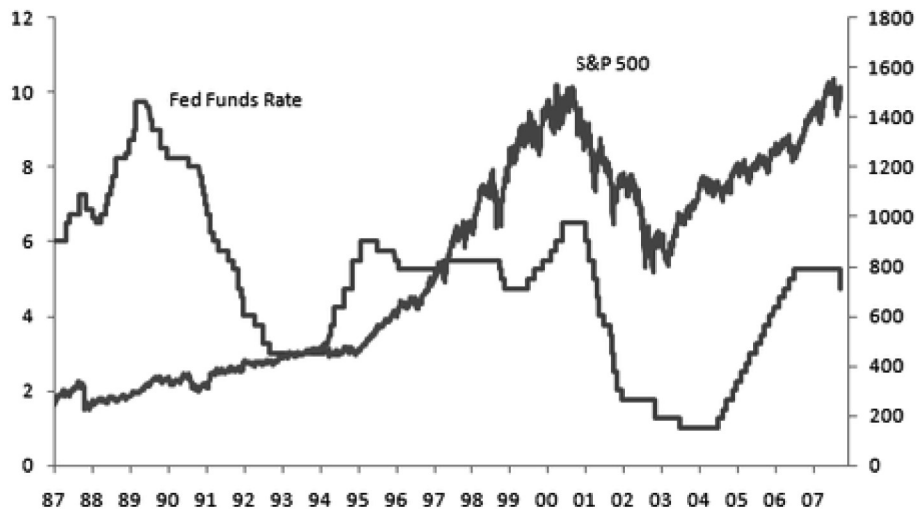


Chart 5



The tug-of-war between Bush Senior's Treasury (this time led by ex-investment banker Tom Brady) and the Federal Reserve was resumed thereafter, as the central bank, given the low level of the post-Plaza dollar, saw no alternative to high rates as the means to shore up foreign investment (see charts 1-5; for relative commentary, refer to notes 37, 52, 55 and 69). If the dollar was weak, as New York Fed Governor, Gerald Corrigan, put it, 'something else [had] to give,' and that 'something' signified the economy, which, trammelled by high rates (around 8 per cent) entered recession in 1990.⁴⁷ 'The ensuing credit reduction brought the wheels of the non-financial economy to an abrupt halt.'⁴⁸ Automatically, the Fed eased the rates, and foreign investment relented conspicuously. Yet the setback was momentary, as the Fed and the bondholding interests were, in fact, regrouping: from 1990, the central bank began to print money at a sustained pace. The money, however, did not immediately reach the public in the form of bank loans,⁴⁹ but went, instead, to refurbish the banks themselves, which bought bonds with it. 'In violation of government regulations,' Greenspan allowed banks 'to hold enormous quantities of [such] long-term bonds without setting aside funds to cover the associated risk. *These appreciated spectacularly as long-term interest rates declined precipitously*, miraculously restoring the banks' balance sheets.'⁵⁰ The profits obtained through this 'clandestine bank bailout,' allowed banks 'to write off bad debts and create credit again.' By 1992 the slump was over.⁵¹

Then came Clinton. Under his presidency, the sum of four key conditions engendered the recent dot.com flare-up, which gave life to the greatest financial bubble in American history (1995-2000). First, as the economy reflatd, interest rates were driven up, and the pace of foreign investment took off accordingly (see charts). Second, beginning in January 1993, money creation, magnified by credit extension, rose dramatically.⁵² Third, Greenspan talked Clinton into reducing the budget deficit especially through spending cuts,⁵³ probably to deflect as much foreign funding as possible to the bond and stock markets. And, fourth, as the United States seemed keen on abandoning for good any pretension to manufacturing competitiveness, it proceeded to relieve its commercial partners – Japan and Germany above all – of exchange rate disadvantage by sponsoring in the summer of 1995 the so-called Reverse-Plaza agreement, which implemented the participants' resolution that, once again, the dollar ought to rise against the other main currencies.⁵⁴ This last event was of decisive importance.⁵⁵

All of the above traits, coupled with the unflinching commitment to repress wages and extort profits from the service sector by means of exploitative working schedules,⁵⁶ yielded the contour of the looming 'New Economy.' Finance triumphant, a high dollar, cheap credit, low pay and the grooming of a bondholding class – whose assigned duty has been to set the spending tone for the country as a whole by leveraging the 'wealth effect'⁵⁷ – seemed altogether to re-propose the recipe of Reaganomics, the crucial difference being, however, that the dependence on deficit spending was for the time being almost entirely traded off for speculative hysteria.

Between 1995 and March 2000, when the bubble was officially pricked, stocks on Wall Street had reached vertiginous heights – values, by definition, wholly disconnected from the assets' underlying economic worth. It was said that America's 'growth engine' – i.e., its 'gravity-defying' stock market⁵⁸ – had pulled the bandwagon of the world for the whole length of the 1990s, which were accordingly referred to as 'fabulous,' 'wonderful.'⁵⁹ The rationale advanced by the establishment (Greenspan's Fed *in primis*) to account for the wonder was a mendacious tale rooted in the claim that, thanks to prodigious advances in hi-tech, US productivity had made extraordinary progress throughout the boom. Hence the stock market appreciation. In truth, the unexceptional technical advances recorded in that decade appeared to be confined to hi-tech manufacturing, which contributes a paltry 4 per cent to US GDP. That such a circumscribed innovation push could justify price-

earning ratios of 207 on Wall Street seems unlikely: in December 1999 the stock market was valued at 180 per cent of GDP.⁶⁰ Instead, one of the critical realities propelling the stock market boom seems to have been American finance's spectacular sales pitch, whose defining strength, amidst the ballyhoo, *was a sizeable surplus in the total trade balance in advanced technology products*. Interestingly, this balance enjoyed a new spurt during the boom, but immediately thereafter (from 2001 to the present) turned consistently *negative* 'for the first time in recent history.'⁶¹

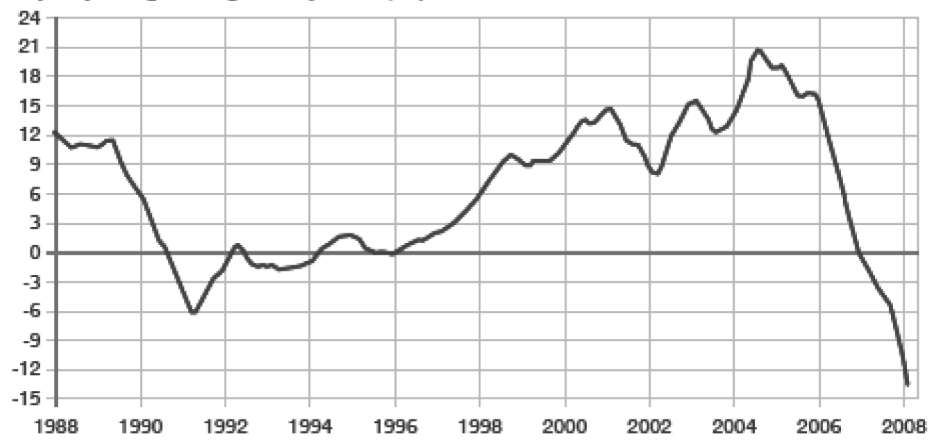
When the air was taken out of the bubble, approximately 7.8 trillion dollars' worth of nominal claims was erased. To add travesty to flop, the system had allowed 'the entire US private sector' to enjoy the view at the peak of the gambling⁶² euphoria (1996-2000) while it '*was suffering a decline in profitability*.'⁶³ Indeed, the total profits raked in by the 4200 firms listed at the time on NASDAQ during the five-year bonanza amounted to slightly less than the total losses these self-same concerns registered when the bubble bust: rather than a 'New Economy,' these figures bespoke of a zero-sum heist. All in all, it was reckoned that rising equity prices had accounted for nearly 30 per cent of the increase in GDP during the boom.⁶⁴

Yet none of this truly spoke of calamitous debacle, for in the space of a year and a half, the Fed was at it all over again, priming this time around, *housing*, which had itself begun to inflate along the dot.com boom in 1995 as a by-product of the wealth effect. Despite Greenspan's exhilaratingly disingenuous claims that his agency could not discern the financial outline of a bubble 'until after the fact,'⁶⁵ the pattern of short-term interest rates illustrates unambiguously how the Fed monitors and engineers, with ability, these 'soft landings' from the hazardous heights of one bubble to the next. The principle is simple: by ratcheting up interest rates as stock (or housing) quotations increase (charts 5 and 6) the central bank rations credit on one hand, and keeps the bubble within manageable boundaries on the other.⁶⁶ Until, that is, the bubble finally pops; then, the skill consists in allowing for the evaporation of trillion dollar losses without stalling altogether the economy, whose price level and unemployment rates are thus sheltered, as best as possible, from the shock on the speculative markets. Thereafter, the short-term rate is forthwith and abruptly lowered to allow for 'restructuring' ('clandestine bank bailouts' and the like), until the system, in traditional fashion, finds itself geared for the next speculative fix.

Chart 6

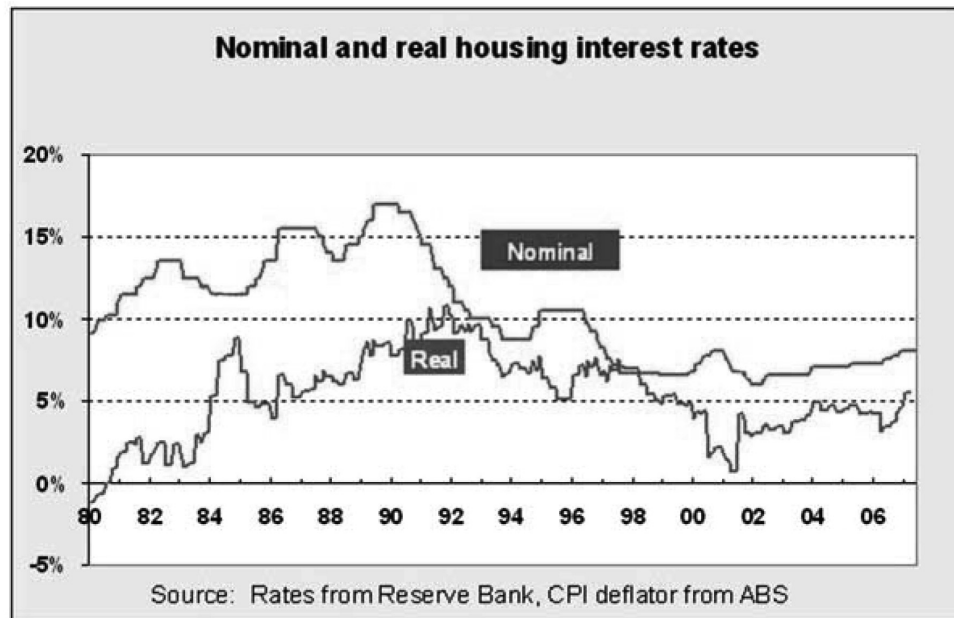
US HOUSE PRICES

% yearly change in single family homes, top 20 metro areas



Source: Standard & Poor/Case-Schiller Index

Chart 7



In the last stretch of this 'serial bubble dependency,'⁶⁷ housing, as said, became the next target as the real mortgage rate was brought to the historically low mark of 5 per cent (chart 7).

As long-term rates trended steadily downward in the second half of the 1990s, the big banks plunged headlong into the refinancing, or 'refi,' business. It took a couple of years for consumers to catch on – extracting money from your house was an exotic concept.⁶⁸

When real estate values began to swell in 2002-03, money creation took off accordingly, followed by an upswing in foreign capital inflow and renewed ferment on Wall Street.⁶⁹ By the end of 2004, the Federal Reserve tightened again, and in mid-2006 – the terminal point of a second five-year-cycle – this bubble popped as well. We are witnessing the after-effects as we write. Again, the frenetic activity spurred by housing and construction, like the dot.com stocks of yesteryear, appears to have contributed nearly 30 per cent of GDP growth during the cycle,⁷⁰ and culminated in a tumble, whose annihilation of virtual wealth is expected in the course of 2009 to run, again, into trillions of dollars.⁷¹ The similarities with the past end here, however, for the late housing excess, which has not relied on high interest rates and a strong dollar, has bequeathed to the economy a greater and somewhat more problematic load of personal debt than previously. In fact, more intensely than stock, housing has been used as collateral for securing credit.

In the fourth quarter of 2007, US household debt amounted to 133.7 per cent of disposable income, and the personal saving rate stood at negative 1.25 per cent.⁷² It had been 12 per cent when Ronald Reagan first entered the White house, in 1981: over the span of a generation, America's residual powers of thrift had been entirely disabled. During Greenspan's tenure at the Federal Reserve, 'debt levels rose from \$28,898 for the average family in 1987 to \$101,386 in 2005.'⁷³ At the end of 2007, total household debt itself amounted to 13.8 trillion dollars, 10.5 of which (i.e., 76 per cent) was in the form of outstanding mortgage debt, the remainder being consumer credit debt.⁷⁴ Adding public and corporate liabilities to this figure yields a cumulative US debt 3¼ times greater than GDP.⁷⁵ Finally, in terms of personal indebtedness, the present situation is such that for

the median household, the net worth (total assets minus total liabilities ca. \$93,000) is roughly twice the annual income, 20 per cent of which is deducted for servicing the debt.⁷⁶

In view of such developments is the system uneasy? Are the markets jittery and the masses simmering? Or is the US executive preoccupied with issues of 'financial sustainability,' or the dreaded 'meltdown'? Hardly. Certainly, the dollar is now (fall/winter 2008) at historical lows – and its plunge since the fourth quarter of 2006 to date, again, may be elegantly accounted for by the drop in foreign capital inflow,⁷⁷ which is a forthright consequence of the housing slump. Because of it, the forthcoming upswing, which will possibly herald a boom fuelled by the securitisation of *alternative sources of energy*,⁷⁸ is still believed to be 'several years away.'⁷⁹

But, overall, investors trust in Ben Bernanke's Fed, which, they say, by intervening openly in defence of the banking system, is 'in the process of creating a new financial system.'⁸⁰ And they harbour no fear of a protracted consumption slump in the midst of foreclosure. Cyclical, opportune write-downs of fictitious wealth à la Greenspan – some call it the 'euthanasia of impaired assets' – should always solve the problem: ultimately, if the price of a house should fall below the value of the mortgage, the financiers' recommendation is for banks to repossess the property while allowing the former owner to remain as a tenant, bound thenceforward simply to remit rent.⁸¹ Thus the conversion of a bad loan into a perpetuity should seal the deal, and onto the next stock market adventure. After all, the bondholders conclude, 'the richest 20% of Americans drive 40% of the country's consumer spending, and their outlays are less restrained by rising gasoline prices and higher mortgage rates.'⁸²

Indeed. Since Volcker's coup and Reaganomics, aside from the annulment of households' savings, the millions living below the poverty line have risen from 29 to 36.⁸³ And suffice it to note that in 2004 the wealthiest 1 per cent of the American population owned 62 per cent of all private business income, 51 per cent of all stocks, and 70 per cent of all bonds.⁸⁴

Undemocratic and spasmodic though it may be, this system is *resilient*. To mitigate its current *défaillances* (especially generalised insolvency and the sudden jump in joblessness), Obama's executive is gearing up to implement a mix of rescue measures: refurbishments of ponderous financial conglomerates by way of freely-printed cash injections (favouring those 'too big to fail'); rescue loans to Detroit's

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wrecked automakers; allotments of hundreds of billion dollars' worth of public projects; and the promise of additional 'breaks,' such as tax remissions for the middle to low income brackets. 'Bailout' is the magic word these days. Yet, presently, the masses exhibit very little confidence in the face of what appears to them as a slump made to last. Financiers, bankers and the like, on their part, while acknowledging that the road ahead will be rough – they are looking to 2010 for the bounce back – are keen on the other hand to reassure us all that what is going on is by no means the end of the world, and that all we have to await patiently is for the system to 'de-leverage.' Which is to say, in strictly classical fashion, that the financial apparatus quite obviously needs to shed the 'toxic' subprime flotsam and like securitised packages – i.e. the worthless paper acquired by investors/savers late in game (2004-2006) – and begin again. The outer layers of papers are thus being dumped, and the air terminally squeezed out of this last asset-bubble. Meantime banks in the USA are being recapitalised in view of the next scheme, while some folks, besides, are likely to be reintegrated in the medium-term by more or less aggressive (that much remains to be seen) state-sponsored brick and mortar projects. Considering that, for the reasons explicated previously, the world is for the time being chained to America's rattled investment halls, the US administration looks upon the unabashed issuance of bailout money without fear of inflation. If a spurt in the price level is to be expected, however no hyperinflationary collapse of the dollar should be contemplated since all other alternative reserve currencies – against which the dollar would hypothetically suffer this catastrophic depreciation – belong to countries deeply involved in the American game (the European bloc, Japan, and even China).

NOTES

1. *The Economist*, 'Barbarians at the Vault,' May 17th 2008.
2. See Thorstein Veblen's Classic exposition of credit creation in the era of Big Business: *The Theory of Business Enterprise*, New York: Charles Scribner's Sons, 1904, Chapter V, pp. 92-132.
3. Such deficits became inevitable as the receipts of a positive trade balance were greatly and systematically outweighed by outgoing financial flows.
4. Jacques Rueff, *Le péché monétaire de l'occident*, Paris: Plon, 1971, pp. 24, 92.

5. Michael Hudson, *Superimperialism. The Origin and Fundamentals of US World Dominance*. London: Pluto Press, 2002, p.16.
6. Ibid, p. 307.
7. Ibid, p. 17.
8. Ibid, pp. 18, 22, 340, 351.
9. Robert Brenner, *The Boom and the Bubble. The US in the World Economy*, London, New York: Verso, 2002, p. 18.
10. Hudson, *Superimperialism*, p. 28.
11. Seymour Melman, *Profits without Production*. New York: Alfred Knopf, 1983.
12. Thibaut de Saint-Phalle *Trade, Inflation and the Dollar*. New York: Praeger, 1985, p. 291.
13. Ibid, pp. 18, 111-12.
14. Volcker had been Under-Secretary of the Treasury under Nixon, and was serving as Governor of the Federal Reserve Bank of New York at the time of the appointment. Presently, at 81, Volcker heads President Obama's Economic Recovery Advisory Board – a new body within the White House created to oversee the new administration's policies for stabilizing financial markets (see Patrick Martin, 'Who is Paul Volcker? Obama appoints a longtime enemy of the working class,' *World Socialist Web Site*, 28 November 2008, <http://www.wsws.org/articles/2008/nov2008/volc-n29.shtml>).
15. Robert Brenner, *The Economics of Global Turbulence. The Advanced Capitalist Economies from Long Boom to Downturn, 1945-2005*, London, New York: Verso, 2005, p. 162.
16. Gérard Duménil, and Dominique Lévy, *Capital Resurgent. Roots of the Neoliberal Revolution*. Cambridge, Massachusetts: Harvard University Press, 2000, pp. 9, 14-15.
17. Real interest rates are obtained simply by subtracting a chosen measure of inflation (GDP deflator, Consumer Price Index, Producer Price Index ...) from the nominal rate of interest.
18. Emmanuel Todd, *Après l'empire. Essai sur la décomposition du système américain*. Paris: Gallimard, 2004, p. 109.
19. Brenner, *Global Turbulence*, p. 152.
20. William Greider, *Secrets of the Temple. How the Federal Reserve Runs the Country*. New York: Simon & Schuster, 1987, pp. 167, 552.
21. The data sequence for the prime rate in the eighties runs thus: 1980: 15.3; 1981: 18.9; 1982: 14.9; 1983: 10.8; 1984: 12.4; 1985: 9.9; 1986: 8.3; 1987: 8.2; 1988: 9.3; 1989:

- 10.8; 1990: 10.0. The series is taken from Kenneth Weiher, *America's Search for Economic Stability. Monetary and Fiscal Policy since 1913*, New York: Twayne Publishers, 1992, p. 174.
22. Greider, *Secrets of the Temple*, p. 411.
23. Brenner, *Global Turbulence*, pp. 211-12, and Greider, op.cit., pp. 430, 451, 542.
24. Greider, op. cit., p. 456.
25. That is, at the time Fed Chairman Alan Greenspan, Volcker's successor, oversaw the dot.com bubble.
26. See Robert Shiller, *Irrational Exuberance*. New York: Broadway Books, 2000, p. 6; Greider, op. cit., p. 705; and Brenner, *The Boom and the Bubble*, p. 100.
27. E. Ray Canterbury, *Wall Street Capitalism. The Theory of the Bondholding Class*. Singapore: World Scientific Press, 2000, p. 48.
28. Brenner, *Global Turbulence*, p. 198.
29. Peter Warburton, *Debt & Delusion. Central Bank Policies That Threaten Economic Disaster*. New York: Allen Lane, The Penguin Press, 1999, p. 27.
30. Quoted in Thibaut de Saint-Phalle, *The Federal Reserve. An Intentional Mystery*. New York: Praeger, 1984, pp. 96-97.
31. Brenner, *The Boom and the Bubble*, p. 54.
32. Michel Ruch, *L'empire attaque. Essai sur le système de domination américain*. Nantes : Éditions Amalthée, 2007, pp. 86 and ff.
33. Todd, *Après l'empire*, pp. 107-11.
34. Anton Brender, and Florence Pisani, *La nouvelle économie américaine*. Paris: Economica, 2004, pp. 136-42.
35. Ibid, p. 102.
36. De Saint-Phalle, *The Federal Reserve*, p. 113; and Greider, *Secrets of the Temple*, p. 561.
37. Of the three main approaches to the US international imbalance, 'the capital flows view,' according to which the trade and current account deficits are a *residual*, the result of the capital account surplus,' is the correct one for reading current events. In other words, the magnitude of America's trade deficits appears to be dictated by the flows of foreign capital, which are themselves determined by the level of interest rates. The other two approaches, focusing respectively on trade and GDP – the former emphasizing how excess imports come first and capital follows to fund the shortfall; and the latter how the trade deficit is the result of a mismatch between domestic savings and domestic investments – fail to account for the

several turning points encountered in the current account's time series (see for instance, Mieczyslaw Karczmar, 'The US Balance of Payments: Widespread Misconceptions and Exaggerated Worries,' *Deutsche Bank Research: Current Issues*, October 1, 2004). As may be evinced from the above charts 1 and 2, the dynamics of interest rate-setting mark the shifts in the current account deficit fairly accurately: for instance, when Volcker tightened the money supply and hiked the FFR (the Federal Funds Rate is the economy's short-term benchmark rate, set by the Federal reserve) in 1979-1982, thus strengthening the dollar and reviving instantly the supply of foreign capital (see chart 3), the current account deficit swelled at once. In the aftermath of the Plaza Accord, as the FFR was brought down to 6 per cent in 1986, the course of the deficit was reversed: it reached a peak in 1987 (3.5 per cent of GDP) – not coincidentally the year of the stock market crash, and gradually settled to a plateau of approximately 1 per cent of GDP by 1990. The maverick datum of 1991, for which year the record shows an exceptional current account *surplus* (of roughly 4 billion dollars) is significant, indeed, for it provides additional proof that capital inflows cause imports, and not vice versa. It came to pass that in that year Bush I launched the war against Iraq. For staging and producing the show, America made its allies pledge 43 billion dollars, which dramatically boosted the net transfer component of the current account, and enabled it to score a slender plus (0.1 per cent of GDP). As news of the pledge was officially broadcast, the *New York Times* revealingly exulted: 'As a result of the war in the Persian Gulf and its aftermath, the United States is likely to borrow far less from abroad this year than last. Many forecasters expect the deficit in the current account – the broadest gauge of the nation's imports of goods and services—to shrink sharply in 1991' (Sylvia Nasar, 'US Trade Benefits from War,' *The New York Times*, March 31, 1991. The *Times*' article mentions, instead, a figure of 51 billion dollars; the sum of 43 billion dollars is taken from Kathryn Morisse, 'US International Transactions in 1991,' *Federal Reserve Bulletin*, May 1992).

38. Ruch, *L'empire attaque*, p. 88.
39. Brender and Pisani, *La nouvelle économie américaine*, pp. 118-19. Earnings accruing from American foreign investment, which are recorded under the Income heading of the Current Account, have been particularly strong for US 'holding companies, led by those holding operating affiliates in computer services and pharmaceuticals,' Christopher L. Bach, 'US International Transactions in 2007,' US Bureau of Economic

- Analysis, *Survey of Current Business*, Volume 88, n. 4 (April 2008), http://www.bea.gov/scb/pdf/2008/04%20April/0408_ita-text.pdf.
40. As when the Fed Chairman had to hire a bodyguard to protect himself from popular rage after hitting the economy with prohibitive rates in the early eighties, see Greider, *Secrets of the Temple*, pp. 461 and ff.
 41. Over the length of two years – between early 1986 and the end of 1987 – the trade-weighted index of the dollar fell by almost 30 per cent (See *The Economist*, 'Economic Focus: Divine Intervention,' March 27th 2008, p. 100).
 42. Yoichi Funabshi, *Managing the Dollar: From the Plaza to the Louvre*. Washington, D.C.: Institute for International Economics, 1988, pp 1, 4, 9, 15.
 43. Greider, *Secrets of the Temple*, pp. 657, 679.
 44. Ibid, pp. 696, 705.
 45. Brenner, *Global turbulence*, p. 277.
 46. Steven K. Beckner, *Back From the Brink: The Greenspan Years*. New York: John Wiley & Sons, 1996, p. 62.
 47. Beckner, *Back From the Brink*, p. 123.
 48. Richard A. Werner, *Princes of the Yen. Japan's Central Bankers and the Transformation of the Economy*. Armonk, NY: M.E. Sharpe, 2003, p. 125.
 49. John P. Judd and Bharat Trehan, 'Money, Credit, and M2,' *Federal Reserve of San Francisco Weekly Letter*, Number 92-30, September 4, 1992.
 50. Brenner, *Global Turbulence*, p. 278, emphasis added.
 51. Werner, *Princes of the Yen*, p. 125.
 52. As may be seen from Chart 4, M2 – the broad monetary aggregate comprising currency, deposits and savings – took off in 1993, after Greenspan's 'clandestine bank bailout' was completed during the previous biennium.
 53. Beckner, *Back From the Brink*, p. 300.
 54. From the last quarter of 1995 to the beginning of 2002, when the dot.com bubble had fully deflated, the real trade-weighted index of the dollar increased approximately by a third (see Chart 1). Brenner, *The Boom and the Bubble*, p. 131, and *Global Turbulence*, p. 290.
 55. When the Federal Reserve hiked interest rates at the beginning of 1994 (see Charts 2 and 5), foreign investment, which had been in a lull throughout the recession of the early nineties, picked up again (Chart 3). The dollar's appreciation orchestrated by the Reverse-Plaza Accord of 1995 (Chart 1), along with the Fed's steady injection of

- liquidity into the economy (magnified by bank lending; Chart 4), began to fuel the stock market boom (Chart 5), whose stellar yields, in turn, took over from the interest-rate policy the task of attracting further, copious foreign funds. As said, it is from such capital inflow that America recoups its current account (trade) deficit.
56. Ibid, p. 335.
 57. That is the stimulation of consumption generated by way of capital gains (paper, virtual earnings), rather than by concrete advancement in labour remuneration.
 58. Alan S. Blinder and Janet L. Yellen, *The Fabulous Decade. Macroeconomic Lessons from the 1990s*. New York: The Century Foundation Press, 2001, p. 53.
 59. Ibid, p. 1.
 60. The work conventionally cited by commentators doubting the story of the New Economy's productivity surge is Robert J. Gordon, 'Does the 'New Economy' Measure up to the Great Inventions of the Past?', [2000]. *Journal of Economic Perspectives*, Vol. 14, No. 4, Fall, p. 49-74. www.nsf.gov/statistics/seind06/pdf/overview.pdf. Moreover, it shall not be bootless to bear in mind that downright statistical manipulation was effected by conniving governmental statistical bureaus in order to inflate the numbers, in support of the Fed's self-congratulatory fabrications; see William Fleckenstein, *Greenspan's Bubbles. The Age of Ignorance at the Fed*. New York: McGraw Hill, 2008, pp. 117-120.
 61. The National Science Board, *Science and Engineering Indicators*, 'Overview,' 2006, pp. 7-8. For specific data, consult: <http://www.census.gov/foreign-trade/statistics/country/index.html>.
 62. Shiller, *Irrational Exuberance*, p. 41.
 63. Peter Hartcher, *Bubble Man: Alan Greenspan and the Missing Seven Trillion Dollars*. New York: W. W. Norton & Company, 2006, pp. 9, 13-14.
 64. Brenner, *Global Turbulence*, pp. 296, 312.
 65. As contended by the Fed Chairman during his testimony in front of the Senate Banking Committee, April 13, 2000.
 66. This is the classic monetary phenomenon of the *hausse* – also acknowledged by Gesell – whereby initially low, boom-triggering rates eventually accompany the ascent of the credit inflation, to keep abreast of the nominal price increases. See Silvio Gesell, *The Natural Economic Order, Money Part (Part 1)*, San Antonio: Free-Economy Publishing Co., 1934 [1919], p. 275, and de Saint-Phalle, *The Federal Reserve*, p. 90.
 67. Hartcher, *Bubble Man*, p. 24

68. Charles S. Morris, *The Trillion Dollar Meltdown. Easy Money, High Rollers and the Great Crash*. New York: Public Affairs, 2008, p. 67.
69. The trajectory of the Federal Funds Rate (Charts 2 and 5) seems to indicate that the Fed, by July 2004, must have regarded housing prices sufficiently high to require a standard, gradual interest *hausse*, which, as was the case for the dot.com bust, is effected to burst the bubble in 18 months or so.
70. Brenner, *Global Turbulence*, p. 311.
71. Dean Baker, 'The Housing Bubble and the Financial Crisis,' *Real-world Economic Review*, issue no. 46, May 2008. See also, Morris, *Trillion Dollar Meltdown*, pp. 132-33.
72. Board of Governors of the Federal Reserve System, *Monetary Policy Report to the Congress*, 27 February 2008, p. 9.
<http://www.federalreserve.gov/boarddocs/hh/2008/february/fullreport.pdf>.
73. William Bonner, and Addison Wiggin, *Empire of Debt. The Rise of an Epic Financial Crisis*. New York: John Wiley & Sons, 2006, pp. 253, 257.
74. *Flow of Funds of the United States*, March 8, 2008 Release, Z-1 Release, Debt Outstanding Tables, *Federal Reserve Statistical Release*, 6.
75. Fleckenstein, *Greenspan's Bubbles*, see chart on p. 174.
76. See John Bellamy Foster, 'The Household Debt Bubble,' *Monthly Review*, Volume 58, no. 1, May 2006, www.monthlyreview.org/0506jbf.htm; and Kevin L. Kliesen, 'Survey Says Families Are Digging Deeper into Debt,' *The Regional Economist, The Federal Reserve Bank of St. Louis*, July 2006,
77. Board of Governors of the Federal Reserve System, *Monetary Policy Report to the Congress*, 27 February 2008, p. 18.
78. *The Economist*, 'The Future of Energy', June 21st 2008, p. 17.
79. Eric Martin, 'US Stocks Drop as Oil Climbs; UPS, General Motors Retreat,' *Bloomberg*, July 1st 2008.
80. Randall W. Forsyth, 'Bearing Down on the Fed's Balance Sheet,' *Barron's*, April 4, 2008. When the Federal Reserve recently pioneered the rescue of investment firm Bear Stearns by extending loans to the latter and other involved financial outfits (thus absorbing in exchange their IOUs into its own portfolio, and sacrificing Treasuries as a result), it somehow innovated with respect to Greenspan's routine of merely providing cheap money whenever the system tottered. Some analysts have thought the change so momentous that they have begun discriminating between 'pre-Bear Stearns' and 'post-Bear Stearns' procedures in financial chronicling.

81. Thomas G. Donlan, 'A Change of Status,' *Barron's*, May 26, 2008.
82. Kopin Tan, 'A Bullish Call,' *Barron's*, December 17, 2007.
83. 'In 2003 the Census Bureau defined the poverty line for an individual by an income of \$9,573 and for a family of four by an income of \$18,660,' Ravi Batra, *Greenspan's Fraud. How Two Decades of His Policies Have Undermined the Global Economy*. New York: Palgrave Macmillan, 2005, p. 227.
84. Morris, *Trillion Dollar Meltdown*, p. 141.